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Baton Broadcasting Incorporated
Annual Report

1973

Directors and Officers

JOHN WHITE HUGHES BASSETT
President, Chairman of the Board and Director

JOHN FREDERICK BASSETT
Vice-President and Director

EDWARD JOSEPH DELANEY
Vice-President, Secretary and Director

FOSTER WILLIAM HEWITT
Vice-President and Director

LAWRENCE MALCOLM NICHOLS
Vice-President, Treasurer and Director

GORDON VINCENT ASHWORTH
Director

ALLAN LESLIE BEATTIE
Director

CHARLES FOWLER WILLIAMS BURNS
Director

FREDRIK STEFAN EATON
Director

JOSEPH JOHN GARWOOD
Director

EDWIN ALAN GOODMAN
Director

TRANSFER AGENT AND REGISTRAR
The Canadian Imperial Bank of Commerce

AUDITORS
Clarkson, Gordon & Co.

Report to the Shareholders

The board of directors of Baton Broadcasting Incorporated is pleased to present the annual report of the Company for the year ended August 31, 1973.

Net income for the year totalled $2,882,607, compared to $3,142,561 in 1972. This decline in profit can be attributed to start-up costs of certain subsidiary operations acquired in the latter part of the 1972 fiscal year and lower profits in the radio operations.

Revenues from the sale of air time increased by $2,979,118 to $21,510,267 or 16.1% for the year ended August 31, 1973. Production revenues increased by $1,250,486 to $8,729,408 or 16.7% during the same period.

Television

The Company's television outlets, CFTO-TV in Toronto and CFQC-TV in Saskatoon, continue to be the number one rated stations among viewers in their respective market areas. Applications by these two stations to the Canadian Radio-Television Commission for the renewal of their licenses were approved during 1973 and are effective until March 31, 1977.

In November, 1973, CFTO-TV appeared before the Canadian Radio-Television Commission seeking approval to move its transmitter atop the new CN Tower. This application, which was approved in December 1973, will extend CFTO's television signal to approximately 700,000 more persons in Ontario and improve the signal for others within its present viewing area. Service from this new location is expected to commence approximately January 1, 1975.

Radio

Radio stations CKLW-AM in Windsor and CFQC in Saskatoon are also the number one stations with radio listeners in their market areas. CKLW, serving a large area in the United States as well as Canada has maintained its top rating despite increased competition from other stations in the Detroit area. An application by CFQC radio for renewal of its broadcasting license was approved during the year by the Canadian Radio-Television Commission for a period of four years expiring March 31, 1977.

The Ottawa radio station launched a new programming format under the call letters CFGO on September 1, 1972. This operation was strongly promoted throughout the 1973 fiscal year and the station ratings have climbed steadily during the period. On June 22, 1973, the Canadian

Radio-Television Commission approved an increase in power from 10,000 watts to 50,000 watts and the station will commence broadcasting with this increased power by January 1, 1974. The Canadian Radio-Television Commission also approved a renewal of the CFGO license until December 31, 1974.

Production

The Company's production revenues are earned primarily by Glen-Warren Productions Limited and its subsidiary companies. Glen-Warren continues to be a major source of television programs produced for the CTV Television Network and enjoys growing international recognition for its production expertise. In 1973 its mobile facilities were used in such divergent points as Cypress Gardens, Florida producing "Day of Discovery" and in Athens, Greece for the telecast of the Miss Universe contest.

Football

The results included in this report for the Argonaut Football Club Limited cover the year ended December 31, 1972 when the Argonauts finished out of play-off contention. In 1973 the Argonauts finished in second place and lost the semi-final Eastern Conference Playoffs to the Montreal Alouettes in overtime.

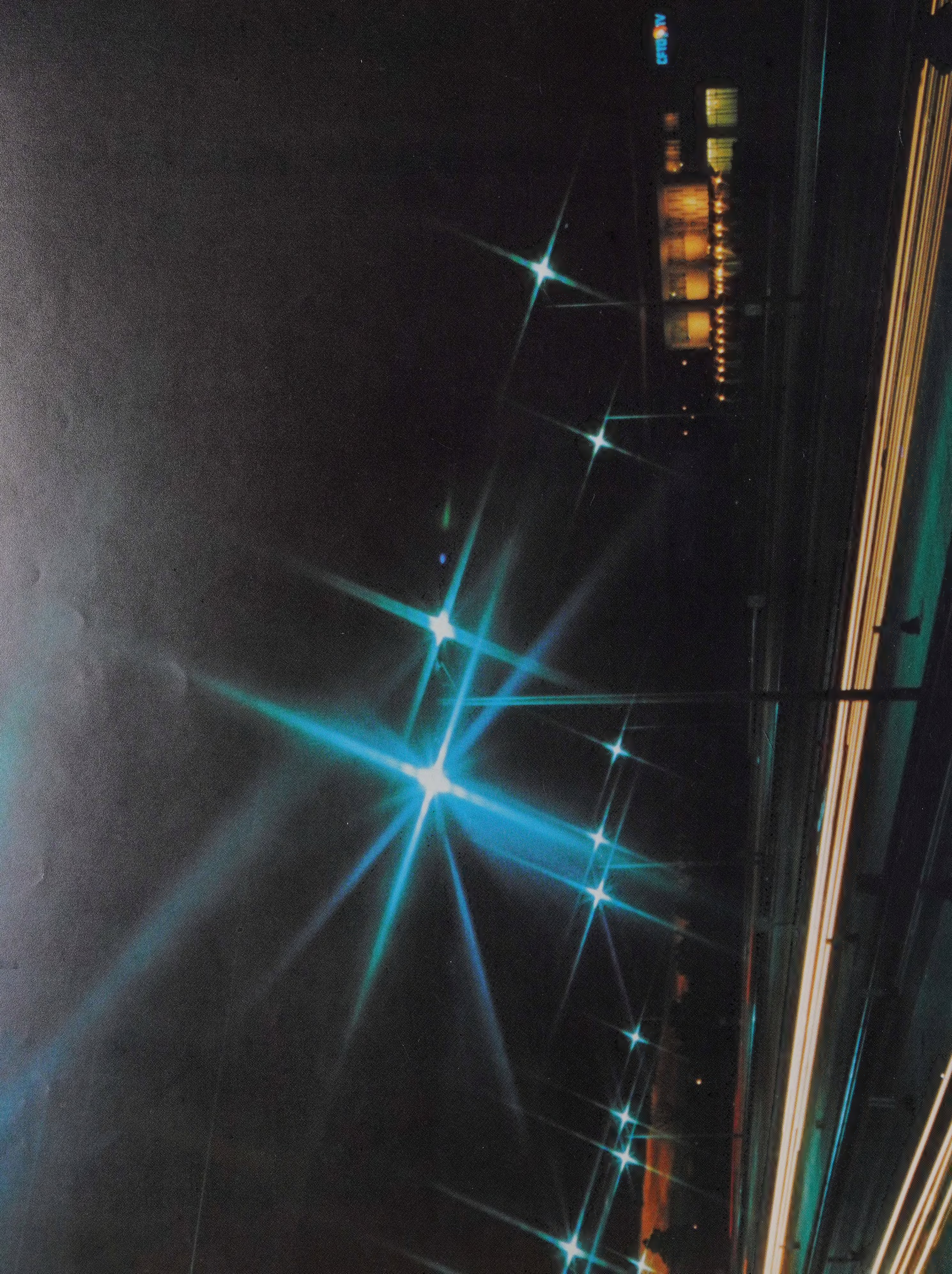
Outlook

The 1974 fiscal year is difficult to predict because of world reaction to international events, and the political situation in the United States. At this point advertising and production sales are ahead of the preceding year and costs are not expected to increase at the rate experienced in the 1973 fiscal year.

On behalf of the Board,

John Bassett

John W. H. Bassett,
President and Chairman of the Board.



Jim Perry hosts "Headline Hunters", a Glen-Warren program shown on the full CTV Network.

John Hewer is host of the highly successful "Pig 'n Whistle", now in its eighth season on the CTV Television Network.

Argonauts, shown here in a game against the Montreal Alouettes, played before capacity crowds throughout the 1973 football season.

A scene at Cypress Gardens, site of the production "Day of Discovery".

Blair Lancaster of Burlington, Ontario, recently crowned Miss Canada 1974. The Miss Canada Pageant attracted a national television audience of almost four million viewers in 1973.

Tammy Grimes, Eddie Albert and Dame Judith Anderson starred in "The Borrowers", a special produced for the Hallmark Hall of Fame series.

A nighttime scene of CFTO-TV Limited, conveniently located at the McCowan Road exit of The MacDonald-Cartier Freeway. This building houses all the facilities necessary for television productions.

Consolidated Balance Sheet

August 31, 1973 (with comparative figures for 1972)

Assets

	1973	1972
Current		
Cash and short-term investments	$ 577,120	$ 782,509
Accounts receivable	5,847,078	6,590,119
Notes receivable		491,700
Inventory of programs, at the lower of cost and net realizable value	555,272	1,496,564
Prepaid and deferred expenses	1,452,883	993,699
Income taxes recoverable	781,268	
Total Current Assets	**9,213,621**	10,354,591
Investments		
CKLW-TV, at cost plus accrued interest (note 2)	5,318,938	4,985,113
Other companies, at cost less amounts written off	1,834,383	1,908,743
Motion pictures, at cost less allowance for losses	422,762	251,099
Total Investments	**7,576,083**	7,144,955
Fixed Assets (note 3)		
Land	1,868,486	1,918,182
Buildings	7,242,743	7,157,337
Production and transmitting equipment	11,499,926	10,591,811
Automotive equipment, furniture and fixtures	1,157,944	839,160
	21,769,099	20,506,490
Less accumulated depreciation	8,887,838	7,622,608
Total Fixed Assets	**12,881,261**	12,883,882
Other Assets		
Television and radio broadcasting licenses and goodwill, at cost	7,212,239	7,212,239
Football franchise and goodwill, at cost	1,762,285	1,762,285
Rights to Miss Canada and Miss Teen Canada Pageants, at cost	197,627	197,627
Total Other Assets	**9,172,151**	9,172,151
	$38,843,116	$39,555,579

(See accompanying notes)

Baton Broadcasting Incorporated

(Incorporated under the laws of Ontario) and subsidiary companies

Liabilities and Shareholders' Equity

	1973	1972
Current		
Bank indebtedness (note 4)	$ 2,956,934	$ 5,265,495
Accounts payable and accrued charges	1,827,422	2,276,995
Advance ticket sales (note 1)	1,194,899	1,004,673
Income and other taxes payable	934,484	1,537,449
Long-term debt due within one year and accrued interest (note 5)	696,176	1,544,223
Deferred income taxes	957,000	
Total Current Liabilities	**8,566,915**	11,628,835
Deferred Income Taxes	**3,507,900**	4,045,900
Long-term Debt (note 5)	**7,234,010**	11,647,160
Shareholders' Equity		
Share capital (note 6)—		
Authorized:		
9,000,000 common shares without par value		
Issued:		
6,950,000 (1972—6,450,000) common shares	11,100,250	5,975,250
Retained earnings	5,161,779	2,986,172
Contributed surplus	3,272,262	3,272,262
Total Shareholders' Equity	**19,534,291**	12,233,684
	$38,843,116	$39,555,579

On behalf of the Board:

Allan Bassett Director

A. Nichols Director

Consolidated Statements

For the year ended August 31, 1973 (with comparative figures for 1972)

Income

	1973	1972
Revenues:		
Time sales—net of agency commissions	$21,510,267	$18,531,149
Productions	8,729,408	7,478,922
Football operating income	1,917,812	1,899,352
	32,157,487	27,909,423
Expenses:		
Programming	15,951,127	13,279,310
Selling and administrative	6,913,601	5,270,143
Football operating expenses	1,557,472	1,452,353
	24,422,200	20,001,806
Income before the undernoted items	7,735,287	7,907,617
Investment income		185,155
Income before interest, depreciation and income taxes	7,735,287	8,092,772
Deduct:		
Interest expense—		
Long-term debt	449,836	508,896
Current debt	329,303	289,588
	779,139	798,484
Depreciation (note 3)	1,287,741	1,008,777
	2,066,880	1,807,261
Income before income taxes	5,668,407	6,285,511
Income taxes:		
Current	2,142,500	2,014,950
Deferred—current and long-term portions	643,300	1,128,000
	2,785,800	3,142,950
Net income for the year	$ 2,882,607	$ 3,142,561
Earnings per share:		
Based on average of 6,863,350 shares outstanding during the year (1972—6,161,884)	$ 0.42	$ 0.51

Retained Earnings

	1973	1972
Balance, beginning of the year	$ 2,986,172	Nil
Net income for the year	2,882,607	$ 3,142,561
	5,868,779	3,142,561
Share issue expenses written off	37,000	156,389
Dividends paid	670,000	
	707,000	156,389
Balance, end of the year	$ 5,161,779	$ 2,986,172

(See accompanying notes)

Source and Application of Funds

	1973	1972
Source of funds:		
From operations—		
Net income for the year	$ 2,882,607	$ 3,142,561
Add items not involving an outlay of funds:		
Depreciation (note 3)	1,287,741	1,008,777
Deferred income taxes—long-term portion	480,000	1,128,000
Provision for losses on non-current investments	91,000	287,000
	4,741,348	5,566,338
Issue of common shares (note 6)	5,125,000	5,675,250
Net increase in long-term debt less portion due within one year		4,237,648
Notes receivable		491,700
	9,866,348	15,970,936
Application of funds:		
Acquisition of subsidiaries—		
Cash consideration		4,305,500
Working capital deficiency of subsidiaries acquired		842,609
Long-term debt of subsidiaries acquired		(245,289)
		4,902,820
Purchase of fixed assets	1,285,120	2,289,263
Investments	292,628	1,573,054
Share issue and organization expenses	37,000	156,389
Reduction of deferred income taxes	1,018,000	
Acquisition of rights to Miss Teen Canada Pageant		100,000
Dividends paid	670,000	
Net reduction of long-term debt less portion due within one year	4,642,650	
	7,945,398	9,021,526
Increase in working capital	1,920,950	6,949,410
Working capital (deficiency), beginning of the year	(1,274,244)	(8,223,654)
Working capital (deficiency), end of the year	$ 646,706	$ (1,274,244)

(See accompanying notes)

Auditors' Report

To the Shareholders of Baton Broadcasting Incorporated:

We have examined the consolidated balance sheet of Baton Broadcasting Incorporated and its subsidiary companies as at August 31, 1973 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
November 3, 1973.

Clarkson, Gordon & Co.
Chartered Accountants

Notes to the Consolidated Financial Statements

August 31, 1973

1. Financial statement presentation

The consolidated financial statements include the financial position of the following companies at August 31, 1973 and the results of their operations for the year then ended, or from the date of their acquisition to August 31, 1972 in the case of subsidiaries acquired during that year –

Baton Broadcasting Incorporated

CFTO-TV Limited and its subsidiaries:
– CKLW Radio Broadcasting Limited
– CKLW Radio Sales Inc.
~~new~~ – CFQC Broadcasting Limited
new – Confederation Broadcasting (Ottawa) Limited

Glen-Warren Productions Limited and its subsidiaries:
– Agincourt Productions Limited
– The Twenty-Fifth Frame Film Production Company Limited
– Moanne Company Limited
– Variety Artists Productions Limited
new – Cleo Productions Limited
– Grove Enterprises Corporation

together with the financial position of Argonaut Football Club Limited as at December 31, 1972 the date of its most recent financial year-end and the results of its operations for the year then ended. There were no significant changes in net current assets, net fixed assets or net worth of Argonaut Football Club between December 31, 1972 and August 31, 1973 except that funds received primarily from season ticket sales prior to August 31, 1973 have been advanced to the Company. This inter-company loan has been reflected on the consolidated balance sheet as "Advance ticket sales".

The shares of losses of subsidiary companies accruing to minority shareholders have been deducted from the consolidated income of the Company to the extent that accumulated losses exceed the total investment of the minority shareholders.

2. Investment in CKLW-TV

CFTO has a 75% interest in CKLW-TV which is carried at cost of $3,750,000 U.S. ($3,830,000 Cdn.) plus accrued interest of $1,488,938.

By agreement St. Clair River Broadcasting Limited, a subsidiary of the Canadian Broadcasting Corporation, must purchase CFTO's interest in CKLW-TV prior to May 31, 1975. The agreement provides for a selling price equal to the aggregate of CFTO's investment in CKLW-TV at cost plus accrued interest and CFTO's share of any accrued profits (but not reduced by CFTO's share of accrued losses) to the date of sale.

The funds required by St. Clair to purchase its 25% interest in CKLW-TV were obtained by the Canadian Broadcasting Corporation from the Treasury Board. The Canadian Broadcasting Corporation has undertaken to use its best efforts to obtain from the Treasury Board the funds necessary for the purchase of CFTO's interest.

The operating losses of CKLW-TV since the date of acquisition amounted to $4,751,000 and total losses after interest expense and extraordinary items amounted to $6,808,000. Because, as stated above, CFTO's investment is not of a permanent nature CFTO's 75% interest in the financial position and the operating losses of CKLW-TV is not consolidated in these financial statements and this investment is shown at cost plus accrued interest thereon.

In addition CFTO and St. Clair have jointly and severally guaranteed bank loans made to CKLW-TV in the amount of $3,852,000 at August 31, 1973. Upon the purchase of CFTO's interest by St. Clair, CFTO will be released from its obligation under such guarantee.

3. Fixed assets and depreciation

Fixed assets are shown at original cost to the Company's subsidiaries, adjusted by an increase of $2,027,025 to reflect fair values at the dates of acquisition of the subsidiaries by the Company. This increase of $2,027,025 has been allocated as follows: land – $1,177,076, buildings – $331,872 and production and transmitting equipment – $518,077. Accumulated depreciation at the dates of acquisition represented depreciation previously provided by the subsidiaries on such assets, restated where necessary, to conform to the depreciation policy of the Company.

Rates and bases of depreciation applied by the Company and its subsidiaries have been as follows:

Buildings	– 2½% per annum on a straight line basis
Production and transmitting equipment	– 7 to 12½% per annum on a straight line basis
Automotive equipment	– 30% per annum on a diminishing balance basis
Office furniture and fixtures	– 10% per annum on a straight line basis

4. Bank indebtedness

The current bank indebtedness of the companies is secured by general assignments of their book debts and by a debenture in the principal amount of $10,000,000 containing a first mortgage on the land and premises of CFTO and a first floating charge on the undertaking and remaining assets of CFTO, and by a guarantee of the Company secured by a pledge of its shares of Argonaut Football Club.

5. Long-term debt

The long-term debt of the companies consists of the following:

	August 31	
	1973	1972
8% promissory note, due August 25, 1981	$ 600,000	$ 675,000
9% promissory notes, principal and interest due May 31, 1975 ($2,500,000 U.S. plus accrued interest of $763,800 U.S.)	3,320,800	3,091,300
Promissory notes due January 31, 1976, repayable annually in amounts equal to 50% of the consolidated cash profits (as defined) of CKLW Radio Broadcasting Limited together with interest at a rate of ½% above the Company's bank's prime lending rate throughout the term of the notes ($2,483,391 U.S. plus accrued interest)	2,520,641	3,195,231
Equipment contracts, at rates of interest of 7¾% and 9%, payable over one to three years, secured by liens against such equipment	443,208	217,174
9¼% mortgage due October 12, 1977, repayable by monthly instalments of $5,428 including interest and principal, secured by office building and land of CKLW Radio Broadcasting Limited	593,109	514,690
9% mortgage due May 15, 1987, repayable by monthly instalments of $4,818 including interest and principal, secured by land and buildings of Grove ($457,928 U.S.)	452,428	467,824
8% mortgage due March 15, 1973		189,164
Term bank loans		4,841,000
	7,930,186	13,191,383
Portion due within one year	696,176	1,544,223
	$7,234,010	$11,647,160

Long-term debt repayments due in each of the next five years are as follows:

Year ended August 31,	
1974	$ 696,176
1975	265,994*
1976	2,322,055**
1977	108,000
1978	625,036

*Debt repayments in 1975 exclude $2,550,000 principal and $1,453,700 interest which will accrue to date of payment on the 9% promissory notes relating to the purchase of CKLW-TV since funds sufficient to meet these payments are to be received on the sale of CFTO's interest in CKLW-TV (note 2).

**Debt repayments in 1976 include $2,105,641 on the promissory notes due January 31, 1976 which will be payable in 1975 to the extent of 50% of the consolidated cash profits (as defined) of CKLW Radio Broadcasting Limited in the preceding year ended August 31.

6. Share capital

By Articles of Amendment dated October 27, 1972, the Company converted and subdivided its 3,225,000 issued and 1,275,000 unissued common shares without par value into 6,450,000 issued and 2,550,000 unissued common shares without par value.

Pursuant to an underwriting agreement dated November 14, 1972, the Company issued 500,000 common shares without par value for $5,125,000 cash.

7. Translation of foreign currency

Current assets and liabilities in U.S. dollars have been translated into Canadian dollars at the approximate rate of exchange at August 31, 1973. Long-term debt has been translated at the rates prevailing on the dates of original borrowings. Transactions during the period have been translated at the rates of exchange prevailing on the respective dates of the transactions.

8. Contingent liabilities

In the ordinary course of the business of the Company and its subsidiaries there are matters in suit and in dispute and other contingencies outstanding against them. In the opinion of the Company's counsel, the losses, if any, which may result from the settlement of these matters will not be material.

9. Statutory information

The aggregate remuneration paid during the year by the Company and its subsidiaries to the directors and senior officers of the Company was approximately $365,000 (1972 – $351,000).

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